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## IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

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## REPLY BRIEF

## Appellants:

Jay S. Walker,  
Daniel E. Tedesco,  
Stephen C. Tulley,  
Wen Yan Lin

) Group Art Unit: 3625

) )

) Examiner: T. Brown

) )

Application No.: 09/540,034

) )

Filed: March 31, 2000

) )

For: SYSTEMS AND METHODS  
WHEREIN A THIRD PARTY  
SUBSIDY AND A  
MERCHANT SUBSIDY  
FACILITATE A  
TRANSACTION

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Dear Sir:

Appellants hereby reply to the Examiner's Answer mailed August 27, 2004  
(numbered as Paper No. 20040815).

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## ARGUMENTS

Appellants refer to the Examiner's arguments in the Examiner's Answer by reference to (i) the Group (from Appellant's Appeal Brief) that the argument is directed to, and (ii) the corresponding page number of the Examiner's Answer where the argument begins.

Note in general that the Examiner asserts several times that, in Storey, merchants provide subsidies. (Other times the Examiner implies that Storey does not so teach - see, e.g., Examiner's Answer, page 20, Group 13.3.1, 2nd sentence) However, it is clear that the merchants in Storey do not provide any "subsidies" to the customer. On the contrary, the merchants in Storey are merely available to sell a product to the customer, and such products are paid for by the original store that awards the points.

### **Page 4 - Group 1.3.1 (Limitation Not Suggested)**

Appellants titled their Section 1.3.1 "No showing that the references suggest *determining a third party subsidy offer to be provided to the customer*" because neither reference suggests a third party subsidy offer, much less determining such an offer.

Storey has no hint of any third party subsidies whatsoever, much less *determining a third party subsidy offer to be provided to the customer*. There is also no offer in Storey. See, Appeal Brief, page 19.

The Examiner clearly concedes this failing in Storey in the Examiner's Answer. The Examiner states (without support) that Storey, not Krauss, is relied

upon to show determining such an offer, but then the Examiner explains how such an offer is suggested by Krauss.

Specifically, the Examiner states in the second paragraph of the argument for Group 1.3.1 that "Krauss was not offered for teaching an offer". Paradoxically, in the very next paragraph, the Examiner asserts that "Krauss' offer is just like the offer defined in Appellant's specification." There is no other description of how Storey might suggest an offer or even a third party subsidy.

Regarding the assertion that Krauss suggest an offer for a third party subsidy, Appellants specifically refuted this argument in the Appeal Brief, page 17.

The Examiner's argument is, in fact, an argument that Krauss discloses a third party subsidy in some form. However, there is no offer in Krauss (e.g., there is nothing which the customer can accept or reject).

The Examiner's confusion regarding subsidies and offers for subsidies is apparent from the statement on page 4 of the Examiner's Answer:

"Therefore, Appellant's 'offer' is just a benefit that enhances a transaction".

Since neither reference suggests *determining a third party subsidy offer to be provided to the customer*, neither reference confers the advantages of this limitation, as would be apparent to one of ordinary skill in the art, and as described, e.g., in the Appeal Brief, page 15, Section 1.2, and in present application.

**Additional Limitation of Claims not Suggested**

Independent claim 1 (and dependent claims 2 - 63, 68 - 69) include the following limitation:

*evaluating whether a merchant benefit will be applied to the transaction*

The Examiner proposes that this feature is disclosed by Storey. However, Storey discloses that the customer may redeem award points. Even if these award points could be considered a 'merchant benefit', it is clear that in Storey the customer decides whether a merchant benefit will be applied. This differs from claim 1 where the customer clearly cannot perform the recited method.

Thus, in this interpretation of Storey the entity that performs the first step of claim 1 (*determining a third party subsidy offer to be provided to the customer*) is not the entity that performs the second step of claim 1 (*evaluating whether a merchant benefit will be applied*).

This clearly teaches away from the embodiment of claim 1. Accordingly, Storey, whether or not combined with the other art of record, does not suggest the embodiment of claim 1.

Independent claim 67 contains limitations which parallel those of claim 1, and is deemed patentable for at least the same reasons.

Independent claim 70 contains limitations which parallel those of claim 1, and is deemed patentable for at least the same reasons.

**Page 5 - Group 1.3.2 (No Motivation to Combine)**

The Examiner's arguments here were repeated throughout the Examiner's Answer with respect to many claims.

In this portion of the Examiner's Answer the Examiner generally asserts that either (1) the motivation provided in the Final Office Action would have prompted the proposed combination, or (2) the knowledge generally available would have prompted the proposed combination.

This second motivation was raised for the first time in the Examiner's Answer.

With respect to the **first motivation**, the Examiner has essentially argued the following:

since Storey suggests that more merchants lead to an increase in products that are available, the teachings of Storey can be combined with the teachings of *any* other system involving a merchant

Clearly, this argument is fallacious. By this logic, if a reference taught that additional components made a machine more valuable, then that reference could be combined with the teachings of *any* other component, no matter how different that component was.

With respect to the **second motivation**, the Examiner has essentially provided (without any support in the references) the same argument: that the teachings of Storey can be combined with the teachings of *any* other system involving a merchant.

**Page 6 - Group 1.3.3 (Level of Skill)**

The Examiner's arguments here were repeated throughout the Examiner's Answer with respect to many claims.

Appellants argued that the Examiner had failed to show the level of ordinary skill in the art, and thus has failed to consider the level of ordinary skill in making the obviousness determination. The Examiner responded by arguing that:

(1) Appellants have not shown that the level of ordinary skill in the art is low;

(2) Appellants have "admitted" that an obviousness rejection does not require a finding as to the level of ordinary skill in the art;

(3) the references indicate the level of skill in the art (how artisans "solved the problem of providing customer subsidies"); and

(4) Appellants arguments are spurious, and equivalent to an argument that there is no sentence stating the level of skill is high.

With respect to (1), the Examiner, not Appellants, has the duty to initially present a *prima facie* case of unpatentability. In re Fritch, 972 F.2d 1260, 1265 (Fed. Cir. 1992). Appellants have no duty to demonstrate patentability if the Examiner has not presented a *prima facie* showing. In re Oetiker, 977 F.2d 1443, 1445 (Fed. Cir. 1992).

To make a *prima facie* showing of obviousness (as the Examiner attempted) requires a demonstration of several factual predicates, including the level of ordinary skill in the art. Graham v. John Deere Co., 383 U.S. 1, 14, 15 L. Ed. 2d 545, 86 S. Ct. 684 (1966); In re Rouffet, 149 F.3d 1350, 1355 (Fed. Cir. 1998).

Such factual findings must be supported by substantial evidence. Dickinson v. Zurko, 527 U.S. 150, 144 L. Ed. 2d 143, 119 S. Ct. 1816 (1999).

There is no such evidence of record, and the Examiner has not so alleged.

The *Graham* analysis includes a factual determination of the level of ordinary skill in the art. Without that information, obviousness cannot be assessed properly because the critical question is whether a claimed invention would have been obvious at the time it was made to one with ordinary skill in the art. Custom Accessories, Inc. v. Jeffrey-Allan Indus., Inc., 807 F.2d 955, 962 - 963 (Fed. Cir. 1986).

It is reversible error if the required factual determinations are not actually made or it is not clear that the required factual determinations were considered while applying the proper legal standard of obviousness. Specialty Composites v. Cabot Corp., 845 F.2d 981, 990 (Fed. Cir. 1988)

With respect to (2), Appellants never so conceded, and in fact argued the opposite. Appeal Brief, pages 19 - 20.

With respect to (3), the references do not demonstrate that the level of ordinary skill is high, and do not demonstrate "how artisans ... solved the problem of providing customer subsidies". In any event, how artisans ... solved the "problem of providing customer subsidies" is immaterial to the level of ordinary skill in the art.

The hypothetical person of ordinary skill in the art should not be defined as a person working in the field of the invention who is likely to be familiar with the relevant literature. Helifix Ltd., v. Blok-Lok, Ltd., 208 F.3d 1339, 1347 (Fed. Cir. 2000). Instead, the factors listed in Custom Accessories (Custom Accessories, Inc.

v. Jeffrey-Allan Indus., Inc., 807 F.2d 955, 962 (Fed. Cir. 1986)) should be considered.

"Factors that may be considered in determining level of skill include: type of problems encountered in art; prior art solutions to those problems; rapidity with which innovations are made; sophistication of the technology; and educational level of active workers in the field." Environmental Designs, Ltd. v. Union Oil Co., 713 F.2d 693, 696, 218 U.S.P.Q. 865, 868 (Fed. Cir. 1983), cert. denied, 464 U.S. 1043, 79 L. Ed. 2d 173, 104 S. Ct. 709, 224 U.S.P.Q. (BNA) 520 (1984); Custom Accessories, Inc. v. Jeffrey-Allan Indus., Inc., 807 F.2d 955, 962 - 963 (Fed. Cir. 1986). No such findings have been made or even alleged.

In fact, as argued in the Appeal Brief, no reference cited by the Examiner even addresses any problems that are addressed by the present invention (e.g., as described in the Appeal Brief), and none of the references attempt to bring together two distinct manners of benefiting a transaction, as do the present embodiments.

Storey has nothing to do with subsidies or offers. Krauss has nothing to do with offers. Krauss and Storey have nothing to do with evaluating whether a merchant benefit will be applied to a transaction which receives a third party subsidy offer.

With respect to (4), Appellants note that there still has been no finding that the level of ordinary skill is high. The only evidence the Examiner has offered regarding the level of ordinary skill is (for the first time in the Reply Brief) that since Krauss teaches a specific type of subsidy, Krauss therefore shows "how artisans ... solved the problem of providing customer subsidies".

Clearly, the Examiner's assertions have nothing to do with specific factual findings considering the factors listed in Custom Accessories. The Examiner's

assertions also have nothing to do with how the references would be viewed by one of ordinary skill in the art at the time the invention was made.

Thus, since the Examiner has offered no substantial evidence of a required finding in the Graham analysis, there has been no *prima facie* showing of obviousness.

#### **Page 7 - Group 1.4 (Statutory Subject Matter)**

The Examiner cites that In re Johnston for the proposition that a claim "must fall within the technological arts in order to qualify as statutory subject matter under 35 U.S.C. 101". The Examiner also implies that business method is not patentable if it is not implemented by a machine.

The Examiner has misread Johnston, and has also ignored all the cases that have since developed in the 30 years since Johnston.

The Johnston court apparently considered whether the invention at issue was within the "technological arts" when making its §101 determination in order to fully address the examiner's rejection. Importantly, however, the Johnston court agreed that the proper determination of patentability was to ask whether the invention was within the "useful arts." In re Johnston, 502 F.2d 765, 771 (C.C.P.A. 1974); aff'd sub nom, Dann v. Johnston, 425 U.S. 219 (1976). The court found that the invention satisfied §101 because it was useful; there was no analysis of what constituted the "technological arts." The Examiner's definition of "useful arts" as requiring the claim to "implement a physical feature" is not supported by Johnston or any other case law.

Useful arts means that the invention is "useful". In particular, since the claimed invention confers a useful, concrete and tangible result (as argued in the Appeal Brief), they are all comfortably within the useful arts.

#### **Page 7 - Group 2.3.1 (Limitation Not Suggested)**

Appellants argued that the Examiner erred in stating that Storey discloses "*evaluating whether a merchant benefit will be applied to the transaction based on the third party benefit*". Appellants also argued that Storey does not suggest doing anything *based on a third party benefit, and that Storey does not suggest*

*evaluating whether a merchant benefit will be applied to the transaction based on a third party benefit*

The Examiner responded only by arguing that Storey "involves third party benefits".

Clearly, there is no suggestion in Storey (and the Examiner has not argue otherwise) that there is any evaluating whether a benefit will be applied to a transaction based on another benefit.

#### **Page 8 - Group 3.3.1 (Limitation Not Suggested)**

With respect to the claim limitation:

*determining [a third party subsidy offer to be provided to the customer] in response to an indication that the customer is interested in purchasing the item*

As argued in Section 3.2 of the Appeal Brief, this claim limitation is advantageous because the offer is provided at a time when the customer is most susceptible to the offer - when the customer is interested in purchasing the item. Thus the offer may be intelligently targeted in order to maximize the chance that the offer is accepted. Since the customer is interested in the item, the customer would be interested in having a third party benefit applied to that transaction.

The Examiner argues that two mutually exclusive points in time are in fact the same time. The Examiner argues that

the time when a customer is interested in purchasing the item  
is the same as

after a customer has already purchased the item

Clearly these two times are in fact opposite points in time, defined with respect to when an item is purchased. This is an unreasonable interpretation.

#### **Page 10 - Group 4.3.1 (Limitation Not Suggested)**

As argued above with respect to Group 3.3.1, the Examiner's arguments are untenable.

#### **Page 11 - Group 4.3.2 (No Motivation to Combine)**

The Examiner argues that since Storey teaches "receiving an indication of the subsidy offer", it would be obvious to combine Storey with Krauss.

In addition to the arguments above regarding the lack of a motivation to combine, Storey has no hint of any third party subsidies whatsoever, much less *determining a third party subsidy offer to be provided to the customer*. There is also no offer in Storey. See, Appeal Brief, page 19.

The Examiner asserts several times that, in Storey, merchants provide subsidies. However, it is clear that the merchants in Storey do not provide any "subsidies" to the customer. On the contrary, the merchants in Storey are merely available to sell a product to the customer, and such products are paid for by the original store that awards the points.

#### **Page 20 - Group 13.3.1 (Limitation Not Suggested)**

The Examiner offers what can only be termed a non sequitur. The Examiner argues that since more merchants would make the Storey system better, it would have been obvious to modify Storey to yield:

*determining a merchant subsidy amount based on a retail price associated with the item less the third party subsidy amount*

#### **Page 21 - Group 13.3.2 (Limitation Not Suggested)**

The Examiner has apparently misinterpreted the claim limitation.

Claim 64 generally recites:

*determining a merchant subsidy amount based on  
a retail price associated with the item  
less  
the third party subsidy amount*

*determining a retail margin based on  
a retail price associated with the item  
less  
a cost of the item to the merchant*

*applying the merchant subsidy amount to the transaction if  
the retail margin  
less  
the merchant subsidy amount  
is at least equal to a minimum acceptable margin associated  
with the item*

The particular limitation of claim 64 which the Examiner misinterpreted is

*determining a retail margin based on  
a retail price associated with the item  
less  
a cost of the item to the merchant*

The *retail margin* is used in subsequent calculations, in particular a calculation employing this *retail margin*, a subsidy amount, and a minimum acceptable margin to determine whether to apply a subsidy amount.

The Examiner asserts that

"Appellant's determining step is basically drawn to selling an item for a profit. Appellant cannot seriously argue one of ordinary skill in the art would not be motivated to sell Storey's products for a profit."

However, this *retail margin* is not used to "sell an item for a profit", and more importantly there is no hint that Storey system determines the *retail margin*, or even needs to determine the *retail margin*.

**Page 21 - Group 13.3.3 (Limitation Not Suggested)**

The Examiner has apparently misinterpreted the claim limitation.

The particular limitation of claim 64 which the Examiner misinterpreted is

*applying the merchant subsidy amount to the transaction if the retail margin less the merchant subsidy amount is at least equal to a minimum acceptable margin associated with the item*

In other words, the particular limitation which the Examiner misinterpreted involves applying a subsidy under only if certain conditions are true (i.e. selectively applying a subsidy).

The Examiner misinterprets the step as:

"Appellant's [sic] applying step is basically drawn to selling an item for a profit."

Since the limitation does not involve "selling for a profit", and more particularly since the Examiner has still not shown the particular limitation to be suggested by any reference, the Examiner's position is untenable.

**Page 22 - Group 14.3.1 (No Motivation to Combine)**

The claim limitation in dispute generally includes:

*not revealing the third party subsidy amount and the merchant subsidy to the customer*

Appellants argued that there is no evidence of record that the particular systems disclosed by either Storey or Krauss could in any way benefit from concealing certain types of information from the customer.

In response, the Examiner provided no such evidence, and only argued that:

"concealing a party's costs during a business negotiation is well within the knowledge generally available to the skilled artisan"

However, even assuming the Examiner's reading of the references were accurate, Krauss and Storey clearly teaches away from such concealment.

It would make no sense to conceal the subsidy from the customers in Krauss since the subsidy is hoped to entice the customer into making a purchase.

Similarly, it would make no sense to conceal, e.g., the points from the customers in Storey since the points are hoped to entice the customer into making purchases.

Thus, such a "motivation" would not prompt the combination of the cited references, much less in nay manner which rendered the claim obvious.

#### **Page 23 - Group 15.3.2 (Limitation Not Suggested)**

The claim limitation in dispute generally includes:

*determining a merchant subsidy amount to be applied to the transaction*

The Examiner argues that the points of Storey are subsidies. However, under this interpretation, the Examiner concedes that the subsidies / points are applied to a future transaction, not the transaction (i.e. the transaction which also involves a third party subsidy).

## CONCLUSION

For the foregoing reasons, Appellants respectfully request that the Examiner's rejections be reversed.

Respectfully submitted,



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